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Business Reference  
University of Alberta  
118 Business Building  
Edmonton, Alberta T6G 2R6

1989  
ANNUAL  
REPORT

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**LIMITED**



**1989 ANNUAL REPORT**

**ANNUAL GENERAL MEETING**

Shareholders are cordially invited to attend the Company's Annual General Meeting which will be held on Tuesday, April 24, 1990 at 9:30 a.m. in the Viking Room at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.



## 1989 ANNUAL REPORT

### LETTER TO THE SHAREHOLDERS

This report is submitted to the shareholders on behalf of the Board of Directors and will present a review of important developments which have affected the Company during the past year.

### THE COMPANY

Peoples Oil Limited is based in Calgary and is actively engaged in oil and gas exploration and development. Activities continue to be concentrated in the United States, although greater efforts are now being made toward the identification and development of oil and gas reserves in Alberta and in western Saskatchewan. To this end Mon-Oil and Peoples have engaged the full time services of a geological consultant.

In October, Peoples' sold its interest in the South Cole Creek field in Wyoming for \$32,000.00 U.S. The sale was made because of the stripper nature of the wells which required considerable maintenance work and were becoming more costly to operate.

Peoples continues to work closely with Mon-Oil Limited in the development of new projects. Mon-Oil is the largest shareholder of Peoples and is the main developer of prospects in which Peoples participates.

### CRUDE OIL AND NATURAL GAS PRICES

Crude oil prices improved considerably during the last half of 1989 and are currently running at \$22.50 U.S. per barrel for West Texas Intermediate.

The longer term outlook for crude oil indicates a price in the range of \$22.00 U.S. per barrel for 1990; however, it is still very difficult to predict.

Natural gas prices continue to be extremely low at \$1.30 U.S. per mcf. Some oil and gas companies believe that gas prices could increase to a much favorable price in the short term.

### MAIN PROPERTIES

Peoples' main properties continue to be located in Wyoming where they have shifted from the South Cole Creek field to the V-Two Draw area in Converse County, Wyoming. We have also acquired some important gas leases in the Deer Creek Unit in Natrona County, Wyoming.

#### **V-Two Draw**

Mon-Oil continues to operate the V-Two Draw properties in which Peoples owns a 27.5 percent working interest.

In 1988 a crude oil discovery well was drilled six miles northeast of our Valentine #1 oil well by Exxon and Kerr-McGee. The well encountered 35 feet of net oil-bearing Muddy sands and flowed at a rate of 880 barrels of oil per day.

Mon-Oil was approached by Exxon USA in mid 1989 with an offer to buy a 50 percent interest in the V-Two Draw lands in return for Exxon supplying Mon-Oil with certain high tech Exxon seismic information in the vicinity of the Valentine #1 well.



## 1989 ANNUAL REPORT

In November an agreement was reached between Mon-Oil and Exxon whereby Exxon was given the right to purchase a 50 percent interest in the Mon-Oil/Peoples Oil lands at V-Two Draw for \$75.00 per acre, and Mon-Oil and Peoples were given the right to purchase a 50 percent interest in Exxon's lands for \$75.00 per acre. These joint lands cover approximately 4,000 acres in which Peoples has a net interest of 13.75 percent.

Exxon is of the opinion that an oil reservoir similar to the oil reservoir under the Exxon/Kerr McGee discovery well may be present under at least part of the Mon-Oil/Peoples leases. Since entering into an agreement with Exxon, Mon-Oil has embarked on a land acquisition program on behalf of itself and Peoples. These land negotiations are well advanced and when completed Mon-Oil and Peoples may form a Unit in preparation for drilling.

### **Deer Creek Project**

In August of 1989 Mon-Oil and Peoples Oil purchased a 50 percent interest [25 percent Peoples and 25 percent Mon-Oil] in a large gas unit in Natrona County, Wyoming. The project is known as the Deer Creek Unit. This Unit is comprised of approximately 22,000 gross acres of which Peoples Oil owns approximately 5,500 net acres. A gas discovery well was drilled on the lands in 1985 and flowed approximately 1,000,000 cubic feet per day from one zone only. The well contains at least 20 zones of potential gas production totaling 240 feet, over an interval of 8,500 to 9,500 feet. This discovery well has been shut-in awaiting a suitable market for the sale of gas. The operator of the Deer Creek Unit is GLG Energy of Austin, Texas.

Drilling is anticipated to start as soon as gas prices improve which may not be until late this year or early next year. Gas currently sells for \$1.30 U.S. per mcf.

### OTHER PROJECTS

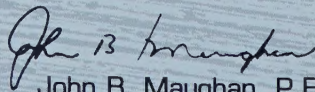
Peoples Oil and Mon-Oil are currently proceeding with attempts to acquire additional significant reserves of natural gas. To this end, we are in the advanced stages of negotiations with a major oil company in the United States for the acquisition of a large interest in a second gas unit near Deer Creek, Wyoming.

### FINANCES

Peoples continues to enjoy a strong working capital position with no debt. We still plan to raise additional working capital through share issues, when market conditions permit.

We continue to believe that the future looks very promising for Peoples and we are confident that the company will continue to expand and prosper.

Once again, we would like to take this opportunity to thank those persons who have contributed to the success of Peoples during the course of the last year, including our Directors, who have unselfishly provided a great deal of assistance to the management of Peoples at little or no remuneration. We also thank the staff of Mon-Oil for all of their help, and, of course, we thank our shareholders for their encouragement and support.



John B. Maughan, P.Eng.  
President and Chief Executive Officer  
Calgary, Canada  
February 22, 1990



1989 ANNUAL REPORT

**AUDITORS' REPORT  
TO THE SHAREHOLDERS**

We have examined the consolidated balance sheet of Peoples Oil Limited as at October 31, 1989 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat Marwick Thorne*

Chartered Accountants

Calgary, Canada  
January 26, 1990



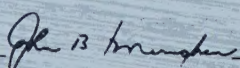
## FINANCIAL STATEMENTS

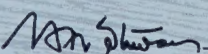
## CONSOLIDATED BALANCE SHEET

October 31, 1989 [with comparative figures for 1988]

ASSETS	1989	1988
Current assets:		
Cash and term deposits.....	\$ 1,220,015	1,148,822
Inventory.....	24,771	25,211
Due from affiliates.....	39,591	56,466
Accrued interest receivable.....	5,301	7,692
Income taxes receivable.....	2,764	2,890
	<b>1,292,442</b>	1,241,081
Petroleum and natural gas properties, at cost.....	240,900	1,009,190
Less accumulated depletion and depreciation.....	183,330	712,475
	<b>57,570</b>	296,715
Other.....	12,997	3,078
	<b>\$ 1,363,009</b>	1,540,874
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deferred income taxes.....	\$ 91,481	198,860
Shareholders' equity:		
Share capital [Note 4]		
Authorized:		
10,000,000 common shares without nominal or par value		
Issued:		
2,095,003 common shares.....	750,200	750,200
Foreign currency translation account.....	(32,354)	(15,737)
Retained earnings.....	553,682	607,551
	<b>1,271,528</b>	1,342,014
	<b>\$ 1,363,009</b>	1,540,874

On behalf of the Board:

 \_\_\_\_\_, Director

 \_\_\_\_\_, Director

See accompanying notes to financial statements.



FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENT OF  
INCOME AND RETAINED EARNINGS**

Year Ended October 31, 1989 [with comparative figures for 1988]

	1989	1988
Revenues:		
Oil and gas.....	<b>\$ 128,765</b>	196,354
Royalty.....	<b>3,616</b>	9,250
Interest.....	<b>132,626</b>	91,911
	<b>265,007</b>	297,515
Expenses:		
Production costs.....	<b>70,555</b>	60,957
Joint venture operating costs.....	<b>44,486</b>	33,783
Depletion and depreciation.....	<b>41,678</b>	94,869
General and administrative.....	<b>44,983</b>	63,312
Loss on disposition of petroleum and natural gas properties.....	<b>183,383</b>	-
	<b>385,085</b>	252,921
Income [loss] before income taxes.....	<b>(120,078)</b>	44,594
Income taxes [Note 3]:		
Current.....	<b>35,109</b>	42,655
Deferred.....	<b>(101,318)</b>	(38,679)
	<b>(66,209)</b>	3,976
Net income [loss].....	<b>(53,869)</b>	40,618
Retained earnings, beginning of year.....	<b>607,551</b>	566,933
Retained earnings, end of year.....	<b>\$ 553,682</b>	607,551
Earnings [loss] per share.....	<b>\$ (0.03)</b>	0.02

See accompanying notes to financial statements.



## FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended October 31, 1989 [with comparative figures for 1988]

	1989	1988
Operating activities:		
Net income [loss] .....	\$ (53,869)	40,618
Items not affecting working capital:		
Depletion and depreciation .....	41,678	94,869
Deferred income taxes .....	(101,318)	(38,679)
Loss on disposition of petroleum and natural gas properties .....	183,383	-
Net changes in non-cash working capital balances .....	19,832	(1,736)
	89,706	95,072
Investing activities:		
Additions to petroleum and natural gas properties .....	(31,239)	(2,418)
Additions to other .....	(10,000)	-
Proceeds on disposal of petroleum and natural gas properties .....	37,571	-
Effect of currency translation adjustments on cash flows .....	(14,845)	1,292
	(18,513)	(1,126)
Financing activities:		
Issue of common shares .....	-	7,000
Increase in cash and term deposits during the year .....	71,193	100,946
Cash and term deposits, beginning of year .....	1,148,822	1,047,876
Cash and term deposits, end of year .....	\$ 1,220,015	1,148,822

See accompanying notes to financial statements.



## FINANCIAL STATEMENTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1989

## 1. SIGNIFICANT ACCOUNTING POLICIES:

## a) PETROLEUM AND NATURAL GAS PROPERTIES:

The company follows the full-cost method of accounting for oil and gas operations in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline "Full Cost Accounting in the Oil and Gas Industry". Capitalized costs are limited to undiscounted estimated future net revenues, using prices at October 31, 1989, from production of proved reserves, after applicable income taxes and general and administrative expenses. Operations are carried out principally in the United States.

Costs incurred are being depleted on the unit of production method based on estimated proven reserves. The Company has not capitalized any general and administrative expenses for the year.

## b) FOREIGN CURRENCY TRANSLATION:

The accounts of the United States subsidiary, which is accounted for as self-sustaining operation, have been translated into Canadian dollars on the following basis:

(i) Assets and liabilities at the rate of exchange at the balance sheet date;

(ii) Revenue and expenses at the average rate of exchange for the year.

All gains and losses arising from foreign currency translation of the United States subsidiary are included in the foreign currency translation account.

## c) JOINT VENTURE ACCOUNTING:

Substantially all of the Company's exploration activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

## d) INVENTORY:

Inventory is recorded at the lower of cost (first in first out) and replacement cost.

## 2. RELATED PARTY TRANSACTIONS:

The Company participates in joint ventures with Mon-Oil Inc., a wholly-owned subsidiary of Mon-Oil Limited, a shareholder. The terms of the joint ventures are considered comparable to similar transactions with non-related parties. Substantially all capital expenditures incurred during the year relate to these joint ventures.

Maughan Energy Limited has provided management services to the Company during the year in the amount of \$8,574 [1988 - \$8,987]

## 3. INCOME TAXES:

	1989	1988
Provision (recovery) for income taxes based on combined basic Canadian federal and provincial tax rate of 43.8% [1988 - 48.6%]	\$ (52,594)	21,673
Changes in income taxes resulting from:		
Lower effective income tax rate due to [earnings] of foreign subsidiary	-	(2,725)
Draw down of deferred income taxes accumulated at different rates	(13,615)	(14,972)
	\$ (66,209)	3,976

## 4. SHARE CAPITAL:

The Company has the following share purchase options outstanding.

Expiry Date	Option Price	Number Granted	Number Expired	Number Outstanding 1989
April 27, 1991	\$ 0.80	95,000	15,000	80,000
April 26, 1990	0.80	36,000	-	36,000
		131,000	15,000	116,000



# FINANCIAL STATEMENTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)  
October 31, 1989

### 5. SEGMENTED INFORMATION:

The Company operates principally as an oil and gas exploration and development company.

	1989		
	Canada	United States	Total
Revenues:			
Oil and gas and royalty	\$ -	132,381	132,381
Interest	101,862	30,764	132,626
	101,862	163,145	265,007
Expenses:			
Production costs	-	70,555	70,555
Joint venture operating costs	-	44,486	44,486
Depletion and depreciation	-	41,678	41,678
Loss on disposition of petroleum and natural gas properties	-	183,383	183,383
	-	340,102	340,102
Segmented income (loss) before the following	101,862	(176,957)	(75,095)
General and administrative			44,983
Income taxes			(66,209)
Net loss			(53,869)
Identifiable assets	\$ 875,402	487,607	1,363,009

	1988		
	Canada	United States	Total
Revenues:			
Oil and gas and royalty	\$ -	205,604	205,604
Interest	74,392	17,519	91,911
	74,392	223,123	297,515
Expenses:			
Production costs	-	60,957	60,957
Joint venture operating costs	-	33,783	33,783
Depletion and depreciation	-	94,869	94,869
	-	189,609	189,609
Segmented income before the following	74,392	33,514	107,906
General and administrative			63,312
Income taxes			3,976
Net income			40,618
Identifiable assets	\$ 845,352	695,522	1,540,874



**1989 ANNUAL REPORT**

**OFFICERS AND DIRECTORS:**

John B. Maughan, President, Chief Executive Officer & Director, Calgary, Alberta  
Sherry L. Cremer, Vice-President Administration, Corporate Secretary & Director,  
Calgary, Alberta  
H. Norman Stewart, Treasurer & Director, Calgary, Alberta  
John I. Maughan, Director, Seattle, Washington  
Julia M. Gill, Vice-President Public Relations & Director, Vancouver, British Columbia  
Art Evans, Director, Calgary, Alberta  
John Melnyk, Vice-President Operations & Director, Calgary, Alberta  
Kenneth R. Murray, Director, Calgary, Alberta

**HEAD OFFICE AND REGISTERED OFFICE:**

1410 Elveden House, 717 - 7th Avenue S.W., Calgary, Alberta T2P 0Z3  
Phone: (403) 269-7717

**AUDITORS:**

Peat Marwick Thorne, 2500 Scotia Centre, 700 Second Street S.W., Calgary, Alberta T2P 2W2

**BANK:**

The Royal Bank of Canada, Main Branch, 339 - 8th Avenue S.W.  
Calgary, Alberta T2P 1C4

**REGISTRAR AND TRANSFER AGENT:**

Montreal Trust, 411 - 8th Avenue S.W., Calgary, Alberta T2P 1E7  
Phone: (403) 267-6800

**SOLICITORS:**

Fenerty Robertson Fraser & Hatch, 30th Floor Western Canadian Place, 700 - 9th Avenue S.W.  
Calgary, Alberta T2P 4A7

DuMoulin, Black, 1004 - 595 Howe Street, Vancouver, B.C. V6C 2T5

**EXCHANGE LISTING:**

Vancouver Stock Exchange, Symbol PPS

**AUTHORIZED CAPITALIZATION:**

10,000,000

**SHARES ISSUED:**

2,095,003



